

STANISLAUS COUNTY

Audit Report

ROAD FUND

July 1, 2009, through June 30, 2010



JOHN CHIANG
California State Controller

February 2013



JOHN CHIANG
California State Controller

February 21, 2013

The Honorable Vito Chiesa, Chair
Board of Supervisors
Stanislaus County
1010 10th Street, Suite 6500
Modesto, CA 95354

Dear Mr. Chiesa:

The State Controller's Office (SCO) audited Stanislaus County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2004, through June 30, 2009. The results of this review are included in our audit report.

The county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$45,986. We made the adjustment because the county did not reimburse the Road Fund for non-road reimbursable expenditures. In addition, we identified procedural findings affecting the Road Fund in this audit report.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: The Honorable Lauren Klein, Auditor-Controller
Stanislaus County
Matt Machado, Director of Public Works
Stanislaus County

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Audit Report

Summary

The State Controller's Office (SCO) audited Stanislaus County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2004, through June 30, 2009. This review was limited to performing inquiries and analytical procedures to ensure that (1) highway users tax apportionments and road-purpose revenues were properly accounted for and recorded in the Road Fund; (2) expenditure patterns were consistent with the period audited; and (3) unexpended fund balances were carried forward properly.

Our audit and review found that the county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$45,986 and procedural findings identified in this report.

Background

We conducted an audit of the county's Road Fund in accordance with Government Code section 12410. The Road Fund was established by the county boards of supervisors in 1935, in accordance with Streets and Highways Code section 1622, for all amounts paid to the county out of money derived from the highway users tax fund. A portion of the Federal Forest Reserve revenue received by the county is also required to be deposited into the Road Fund (Government Code section 29484). In addition, the county board of supervisors may authorize the deposit of other sources of revenue into the Road Fund. Once money is deposited into the Road Fund, it is restricted to expenditures made in compliance with Article XIX of the California Constitution and Streets and Highways Code Sections 2101 and 2150.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund were to determine whether:

- Highway users tax apportionments received by the county were accounted for in the Road Fund, a special revenue fund;
- Expenditures were made exclusively for authorized purposes or safeguarded for future expenditure;
- Reimbursements of prior Road Fund expenditures were identified and properly credited to the Road Fund;
- Non-road-related expenditures were reimbursed in a timely manner;
- The Road Fund cost accounting is in conformance with the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A; and
- Expenditures for indirect overhead support service costs were within the limits formally approved in the Countywide Cost Allocation Plan.

Our audit objectives were derived from the requirements of Article XIX of the California Constitution, the Streets and Highways Code, the Government Code, and the SCO's Accounting Standards and Procedures for Counties manual. To meet the objectives, we:

- Gained a basic understanding of the management controls that would have an effect on the reliability of the accounting records of the Road Fund, by interviewing key personnel and testing the operating effectiveness of the controls;
- Verified whether all highway users tax apportionments received were properly accounted for in the Road Fund, by reconciling the county's records to the State Controller's payment records;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Road Fund was fair and equitable, by interviewing key personnel and testing a sample of interest calculations;
- Verified that unauthorized borrowing of Road Fund cash had not occurred, by interviewing key personnel and examining the Road Fund cash account entries; and
- Determined, through testing, whether Road Fund expenditures were in compliance with Article XIX of the California Constitution and with the Streets and Highways Code, and whether indirect cost allocation plan charges to the Road Fund were within the limits approved by the SCO's Division of Accounting and Reporting, County Cost Plan Unit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the county's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions on a test basis to determine whether they complied with applicable laws and regulations and were properly supported by accounting records. We considered the county's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit and review found that the county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for the item shown in Schedule I and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$45,986 to the county's accounting records.

**Follow-up on Prior
Audit Findings**

Findings noted in our prior audit report, issued on December 30, 2005, have been satisfactorily resolved by the county.

**Views of
Responsible
Officials**

We discussed the audit results with county representatives during an exit conference on May 19, 2011. Diane Haugh, Assistant Director of Public Works, and Julie Serrano, Road Accountant III, agreed with the audit results. In a supplemental exit conference on October 23, 2012, Ms. Haugh further agreed that a draft audit report was not necessary and that the audit report could be issued as final. The County's response, submitted via e-mail, is incorporated in this final report and included as an attachment.

Restricted Use

This report is solely for the information and use of Stanislaus County, the Stanislaus County Board of Supervisors, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 21, 2013

**Schedule 1—
Reconciliation of Road Fund Balances
July 1, 2009, through June 30, 2010**

	<u>Amount</u>
Beginning fund balance per county	\$ 14,198,508
Revenues	<u>21,271,668</u>
Total funds available	35,470,176
Expenditures	<u>(20,349,797)</u>
Ending fund balance per county	<u>15,120,379</u>
SCO adjustment:	
Finding—Non-road reimbursable expenditures	45,986
Total SCO audit adjustments	<u>45,986</u>
Ending fund balance per audit	<u><u>\$ 15,166,365</u></u>

Findings and Recommendations

FINDING 1— Unreimbursed non- road expenditures

The county did not reimburse the Road Fund \$45,986 for expenditures on non-road work for other county departments and outside parties for fiscal years (FY) 2004-05, 2008-09 and 2009-10.

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Streets and Highways Code section 2150 states:

All amounts paid to each county of the Highway Users Tax Fund shall be deposited in its road fund. The board may deposit in said fund any other money available for roads. All money received by a county from the Highway Users Tax Fund and all money deposited by a county in its road fund shall be expended by the county exclusively for county roads for the purposes specified in Section 2101 or for other public street and highway purposes as provided by law.

The SCO has permitted expenditures of Road Fund money for non-road work as a convenience for counties, provided that the expenditures are billed and reimbursed in a timely manner (30-60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$45,986 for the expenditures incurred for other county departments and outside parties. In addition, the county should establish procedures to ensure that future non-road billings are collected and the Road Fund is reimbursed in a timely manner.

County's Response

Subsequent to the audit, the Road Fund was reimbursed in full for non-road work for other county departments and outside parties for the years noted. Reimbursements were received for the following major projects:

7/27/11	\$ 7,250.00	JV100177	Juvenile Hall Parking Lot
6/14/12	15,852.15	JVCEO100210	Juvenile Hall Parking Lot
7/31/12	11,022.00	JV100588	Denair Lighting District
7/31/12	11,419.00	JV100589	Beard Industrial

**FINDING 2—
High clearing account
variance**

A review of the FY 2009-10 Annual Road Report reveals that the general overhead clearing account presented a variance of \$149,903 or 21.41%.

The SCO Manual, Chapter 9, Accounting Standards and Procedures for Counties Manual, Appendix A, section 24, the acceptable range for general overhead is +/-10%.

Recommendation

The county should analyze its general overhead account and update the respective general overhead rate for FY 2011-12. In addition, the county should monitor its variances throughout the year in order to meet the SCO manual variance parameters.

County's Response

The general overhead account was analyzed and the possible cause of the variance was identified. The process for calculating overhead was adjusted for subsequent years. The Department began monitoring overhead variances on a quarterly basis. The current year's variance is within 10%.

**FINDING 3—
Activity Listings
finding**

Review of the activity listing disclosed that for various divisions, activity number 9000—time off included an overhead percentage. This activity is considered non-productive time and should not be assessed an overhead factor.

The SCO's Accounting Standards and Procedures for Counties manual Chapter 9, Appendix A, section 11, prescribes proper cost accounting requirements including cost center, projects and activities.

Recommendation

The county should analyze and review the activity listing for proper cost accounting reporting and eliminate the overhead to activity number 9000 for the fiscal year 2011-12.

County's Response

The correction was made immediately when identified. Note: Even though an overhead percentage was assigned, non-productive time has a "zero" calculation, therefore the actual overhead costs assigned were also zero.

**FINDING 4—
Administrative
overhead factor and
consistently applied**

The county did not consistently apply extra administrative overhead rate to all non-road work performed for other divisions, county departments, and outside parties during FY 2004-05 through 2009-10.

Road Fund money can be expended for road or road-related purposes as outlined in Streets and Highways Code Sections 2101 and 2150. In addition, the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9A, section 32, requires an administrative overhead factor to recover all costs associated with performing non-road reimbursable work.

Recommendation

The county should include an administrative overhead factor in non-road reimbursable billings for county departments and outside parties.

County's Response

Subsequent to the audit, the county applies a 10% administrative overhead rate to all non-road work performed for others.

**Attachment—
County's Response to
Draft Audit Report**



DEPARTMENT OF PUBLIC WORKS

Matt Machado, PE
Director

Laurie Barton, PE
Deputy Director, Engineering/Operations

Diane Haugh
Assistant Director, Business/Finance

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www.stancounty.com/publicworks

Christopher Lek, CPA
Audit Manager
State Controller's Office
Division of Audits
clek@sco.ca.gov
(916) 284-0120

Re: Stanislaus County Road Audit Findings Response

Dear Mr. Lek,

Thank you for allowing the opportunity for our response to the findings of Stanislaus County's Road Audit for the period of July 2004 through June 2010.

Finding 1: The County had not reimbursed the Road Fund \$45,987 for expenditures on non-road work for other county departments and outside parties for fiscal years 2004/2005, 2008/2009, and 2009/2010.

Response: Subsequent to the audit, the Road Fund was reimbursed in full for non-road work for other county departments and outside parties for the years noted. Reimbursements were received for the following major projects:

7/27/11	\$7,250.00	JV100177	Juvenile Hall Parking Lot
6/14/12	\$15,852.15	JVCEO100210	Juvenile Hall Parking Lot
7/31/12	\$11,022.00	JV100588	Denair Lighting District
7/31/12	\$11,419.00	JV100589	Beard Industrial

Finding 2: A review of the FY 2009-10 Annual Road Report reveals that the general overhead clearing account presented a variance of \$149,903 or 21.41%.

Response: The general overhead account was analyzed and the possible cause of the variance was identified. The process for calculating overhead was adjusted for subsequent years. The Department began monitoring overhead variances on a quarterly basis. The current year's variance is within 10%.

Finding 3: Review of the activity listing disclosed that for various divisions, activity #9000-time off included overhead percentage. This activity is considered as non-productive time and should not be assessed an overhead factor.

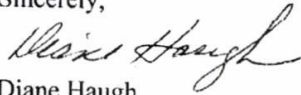
Response: The correction was made immediately when identified. Note: Even though an overhead percentage was assigned, non-productive time has a "zero" calculation, therefore the actual overhead costs assigned were also zero.

Finding 4: The county did not consistently apply an extra administrative overhead rate to all non-road work performed for othe DPW divisions, county departments and outside parties during FY2004/05 through 2009/10.

Response: Subsequent to the audit, the county applies a 10% administrative overhead rate to all non-road work performed for others.

Please don't hesitate to contact Julie Serrano, Road Accountant (209-525-4119) or myself (209-525-4100) if we can provide further assistance. I look forward to receiving the final audit report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Diane Haugh".

Diane Haugh,
Public Works Assistant Director

**State Controller's Office
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<http://www.sco.ca.gov>